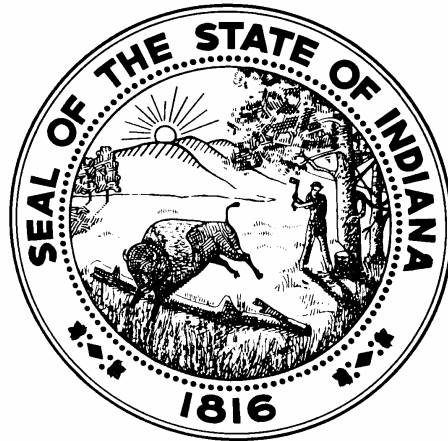


GUIDELINES FOR AUDIT OF
STATE AND LOCAL GOVERNMENTS
BY AUTHORIZED INDEPENDENT PUBLIC ACCOUNTANTS

Revised 2004





STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INTRODUCTION

On September 1, 1986, the State Board of accounts became responsible for establishing Uniform Compliance Guidelines for the examination of state and local government offices and officers by Independent Public Accountants. Shortly before the end of the year, our first issue entitled, Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants was released.

Those of you familiar with previous issues realize the central role played by the State Board of Accounts in the audit of public funds received and disbursed by state and local government offices and officers. Through the annual reporting process and our involvement in approving audit contracts with independent public accountants, we have attempted to insure entities subject to federal or state audit requirements, have met these requirements as efficiently and inexpensively as possible.

Consistent with previous issues of the Guidelines, and in accordance with Government Auditing Standards issued by the Comptroller General of the United States, reports on internal control and compliance will still be required, and will continue to provide the primary focal point of reviews conducted by our department. All reports are also required to contain a schedule of grant activity for all federal financial assistance received.

It has, and will continue to be our policy, that one and only one appropriate audit need ever be performed of any state or local government office receiving federal financial assistance. It is therefore imperative that state and local government officials and their independent auditors exercise diligence in determining applicable audit requirements, prior to commencing the audit process. Through adherence to our Guidelines, and with the cooperation of all parties involved, one audit can and will satisfy the needs of everyone.

We would like to thank the state and local offices and officers and independent public accountants for the cooperation and assistance they have provided. We hope this issue of the Guidelines will assist you in successfully addressing your responsibilities.

Charles Johnson III, CPA
State Examiner
State Board of Accounts

GUIDELINES FOR AUDITS

The Indiana State Board of Accounts is given the responsibility for examining all accounts and all financial affairs of every state and local government office and officer. The State Examiner in accordance with Indiana Code 5-11-1-7 may authorize or designate an Independent Public Accountant (IPA) to perform this examination. If so designated, the IPA must follow the guidelines set out in this document.

If the state board of accounts engages or authorizes the engagement of a private examiner to perform an examination under Indiana Code 5-11-1, the examination and report must comply with the uniform compliance guidelines established. If a person subject to examination under this chapter engages a private examiner, the contract with the private examiner must require the examination and report to comply with the uniform compliance guidelines established.

The state or a municipality may not request proposals for performing examinations of an entity that is subject to examination under Indiana Code 5-11-1 unless the request for proposals has been submitted to and approved by the state board of accounts.

The state or a municipality may not enter into a contract with an entity subject to examination under Indiana Code 5-11-1 if the contract does not permit the examinations and require the reports prescribed by this chapter.

Auditing Standards to be Applied

To serve the needs of all governmental agencies, financial audits must be made in accordance with Government Auditing Standards issued by the Comptroller General of the United States (as revised), which incorporates generally accepted auditing standards as adopted by the American Institute of Certified Public Accountants (AICPA). Revisions to these standards are to be incorporated at their earliest effective date as established by the Comptroller General of the United States and the AICPA.

Government Auditing Standards require auditors to design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of state and federal laws, regulations, contracts, and grant agreements that have a direct and material effect on the determination of financial statement amounts.

Entities that receive and expend federal awards are subject to the provisions of the Single Audit Act, as amended 1996. The Single Audit Act requires the Office of Management and Budget (OMB) to prescribe policies, procedures, and guidelines necessary for its implementation. The resulting OMB Circular A-133 established audit and reporting requirements for governmental entities and not-for-profit organizations receiving and expending federal awards, and defined responsibilities and duties for federal awarding agencies and pass-through agencies and entities.

Among other things, the Single Audit Act, as amended 1996, and OMB Circular A-133 require audits of governments and not-for-profit organizations receiving and expending federal awards to be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States (as revised).

Report

The report must contain the general purpose financial statements of the state or local government and the auditor's opinion thereon. In addition the report must contain a schedule of all federal financial assistance identifying each program and indicating whether the federal financial assistance is direct or pass-through, total expenditures for each federal financial assistance program classified by department, grantor, or agency, total federal financial assistance expenditures, and identifying major programs.

GUIDELINES FOR AUDITS (Continued)

Report (Continued)

In accordance with Government Auditing Standards, two additional reports must be issued:

1. A report on the internal control structure based on an audit of the general-purpose financial statements performed in accordance with government auditing standards.
2. A report on compliance with state and federal laws and regulations based on an audit of general purpose financial statements performed in accordance with government auditing standards.

The report must also contain any other applicable reports, schedules, or opinions required by OMB Circular A-133. The report on internal control must contain a description of any reportable conditions and/or material weaknesses noted during the audit. The report on compliance must contain a description of instances of noncompliance with state and federal laws and regulations, grant agreements, errors or irregularities, and any other items, which in the standards or auditor's judgment, are to be reported in the audit report. Recommendations for corrective action must be included with any item noted.

Fraud, Abuse or Illegal Acts

If the auditor discovers or suspects fraud, abuse or illegal acts during the audit of the entity, the State Board of Accounts must be notified immediately.

Audit Frequency and Completion

Audit frequency of entities is subject to establishment or approval by the State Board of Accounts on an annual or biennial basis in accordance with IC 5-11-1-25. Audits are to be completed and the reports issued within six months after the close of the audit period. Any requests for an extension of time must be in writing to the State Board of Accounts.

Audit Report Distribution

Auditors are required to file a copy of the audit report with the State Board of Accounts, in addition to other reports required to be filed with financial grantors when an audit is performed in accordance with Government Auditing Standards and/or the Single Audit Act.

Contract Approval Process

To obtain approval for the audit, two copies of the audit contract, or engagement letter, must be submitted to the State Board of Accounts, prior to signing. During our review of the contract, we attempt to ascertain the following:

GUIDELINES FOR AUDITS
(Continued)

Contract Approval Process (Continued)

1. The Auditor Selected:
 - a. Is licensed to practice public accounting in the State of Indiana.
 - b. Acknowledges his awareness of governmental audit requirements and professional standards.
 - c. Has no record of performing substandard audits.
 - d. Understands the role of the State Board of Accounts in the audit process.

Contracts with no reference to, or acknowledgement of the responsibility of the State Board of Accounts in this process will not be approved. Therefore, to insure timely approval of the contract, we recommend inclusion of the following wording:

1. The audit will be conducted in accordance with Government Auditing Standards.
2. The audit will be performed in accordance with guidelines established by the State Board of Accounts, and if applicable, OMB Circular A-133.
3. The audit will address items of state compliance as they pertain to the auditee.
4. The State Board of Accounts will be notified immediately if suspected instances of fraud or abuse are discovered during the course of the audit.
5. The State Board of Accounts will be notified in writing of the date, time and place of the exit conference.
6. The State Board of Accounts will receive a copy of the audit report.
7. Working papers supporting the audit report will be available for review by the State Board of Accounts.

In addition to reviewing the audit for sufficiency in scope and adequacy in quality, we will evaluate findings of noncompliance for further action required of this department.